

**PROGRAM TO STRENGTHEN AND MODERNIZE  
ECONOMIC AND FISCAL MANAGEMENT**

**(PN-0089)**

**EXECUTIVE SUMMARY**

**BORROWER:** The Republic of Panama

**EXECUTING AGENCY:** Ministry of Planning and Economic Policy (MIPPE)

**AMOUNT AND SOURCE:** IDB: US\$11.2 million (OC)  
Local counterpart funding: US\$ 4.8 million  
Total: US\$16.0 million

**FINANCIAL  
TERMS AND  
CONDITIONS:** Amortization period: 20 years  
Disbursement period: 4? years  
Interest rate: variable  
Inspection and supervision: 1%  
Credit fee: 0.75%  
Currency: US\$ Single Currency  
Facility (OC)

**OBJECTIVES:** The main objective of this program is to expand the public sector's macroeconomic and fiscal management capacity and strengthen its financial management.

The specific objectives are to: (i) build macroeconomic and fiscal planning capacity; (ii) make tax administration more efficient and effective; and (iii) strengthen financial management through changes in the institutional and legal framework and operational implementation.

**DESCRIPTION:** The program is aimed at producing greater operational integration of macrofiscal programming, budget formulation and execution, and financial management in the public sector. Through the program, the institutions in charge of macrofiscal programming and financial management will be strengthened and modernized: the Ministry of Planning and Economic Policy (MIPPE); the Ministry of Finance and Treasury (MHT); and the Office of the Comptroller General of the Republic (CGR), in the agreed upon areas. The program comprises three subprograms: (i) strengthening of economic analysis (US\$4,283,000); (ii) modernization of tax administration (US\$5,720,000); and (iii) strengthening of financial management (US\$1,539,000).

**ENVIRONMENTAL  
CLASSIFICATION:**

At its meeting of August 1, 1995, the Environment Committee classified this as a Category II operation.

**BENEFITS:**

This program's main benefit will be the progress achieved in securing greater operational integration of macrofiscal programming, budget formulation and execution, and financial management in the public sector.

The subprogram to strengthen economic analysis will make it possible to draft regular reports on the status and outlook for important economic variables; assess the impact of economic policies; and improve budget execution and the allocation and handling of public funds.

Through the subprogram to modernize tax administration, the tax collection systems will be consolidated, efforts will be made to curb tax evasion and increase fiscal revenues, and the customs administration will be strengthened. For the private sector, the greatest benefits will be a reduction in unfair competition and improved taxpayer services.

Under the subprogram to strengthen financial management, the amount of time and money spent processing transactions will be cut significantly, by adopting principles of public financial management based on the "integrated account" concept.

**RISKS:**

The main risk facing this operation would be the inability to transfer disbursement functions from the CGR to the MHT. To offset this risk and guarantee that the transfer of functions will take place, an interministry agreement has been concluded that defines a strategy for incorporating the Treasury into the MHT. In addition, a contractual condition for the loan is that the MHT and CGR sign an action plan and agreement on the terms of the transfer.

The other risk lies in the difficulty of reassigning functions and responsibilities of some of the agencies involved in fiscal and financial management.

To counter this risk, the program will place special emphasis on reviewing the regulations, on the basis of a consensus between the MIPPE, the MHT, and the CGR, and will support the implementation of recommendations arising from that review. Furthermore, the program has been structured as a single operation in order to fully meet the requirements of the various agencies; an interagency coordination committee (COIN) will be set up to ensure that actions are

consistent and to validate recommendations arising from the program.

**EXCEPTIONS TO  
BANK POLICY:**

The direct hiring of the United Nations Development Programme (UNDP) to carry out the administrative support activities for the program coordinating unit (PCU) is proposed (paragraph 3.9). In addition, authorization for the direct hiring of the Inter-American Center of Tax Administrators (CIAT) for the components involving revenue management and financial control and the Information Systems Directorate in the MHT is also proposed (paragraph 3.10).

**CONTRACTING OF  
SERVICES AND  
PROCUREMENT OF  
GOODS:**

Bidding procedures for the procurement of goods and services and the hiring of consultants will conform to the Bank's procedures. International competitive bidding will be required for the procurement of: (i) **goods** valued at US\$250,000 or more; and (ii) **consulting services** valued at US\$200,000 or more.

**THE BANK'S  
COUNTRY STRATEGY:**

The Bank's strategy in Panama for 1997-1998 is to expand the benefits of social policy, in particular to include vulnerable or disadvantaged groups (growth with equity), promote environmentally sustainable development, foster sustainable economic development, and strengthen governance. In this last case, the Bank will assist in the strengthening of the institutions responsible for economic and fiscal management.

The proposed operation is fully consistent with the Bank's strategy for modernization of the State and is very much in keeping with the government's program and with the efforts that the country is making to modernize government.

**POVERTY-TARGETING:**

This program does not contain any direct poverty-reduction component.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions precedent to the first disbursement: Evidence is to be provided to the Bank's satisfaction that: (i) the MIPPE has set up the COIN and the PCU and has hired the executive coordinator and the necessary support staff (paragraph 3.7); (ii) the MIPPE has signed an agreement with UNDP for program administration (paragraph 3.9); (iii) the MIPPE has signed an agreement with CIAT for execution of the revenue management and financial control and Information Systems Directorate components (paragraph 3.10); (iv) the government has agreed to an action plan for the Treasury, with an agreement signed by the MHT and CGR (paragraphs 3.23 and 3.24); and (v) the executing agency has submitted a work program based on the matrix of contents agreed upon

with the Bank (paragraph 3.39).

Other conditions: (i) the Bank will require that progress, mid-term evaluation, and financial reports be submitted (paragraphs 3.31, 3.40, and 3.41); (ii) up to US\$800,000 in expenses incurred prior to the date of loan approval will be recognized (paragraph 3.32); (iii) the priority studies described in paragraph 3.22 will be contracted out and conducted as indicated; (iv) annual monitoring meetings will be held (paragraphs 3.36 and 3.37); and (v) the MIPPE is to provide evidence that the MHT has begun the second stage of the action plan to set up the Treasury (paragraph 3.25).